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ECONOMIC INTELLIGENCE WEEKLY

12 February 1976

Overview

Support of Raw Material Export Prices is the rallying issue for the LDCs in several forums.

- A new five-year economic cooperation agreement between the EC and 46 LDCs (mostly former African, Caribbean, and Pacific colonies) includes a provision guaranteeing the developing countries stable earnings from key commodity exports. The pact also allows duty-free entry into the Community for all industrial and most agricultural exports. The developing countries are not required to grant reverse tariff preferences.

- The UN Conference on Trade and Development (UNCTAD) will try again this week to reach agreement on a practical method to stabilize raw materials prices. A leading proposal is the establishment of a central fund to finance international commodity stocks.

- The Dakar conference of nonaligned nations failed last week to agree on a specific program to boost commodity prices; a host of proposals will be studied before the next meeting. The group favors broadening the French-proposed international oil conference to include a discussion of all raw materials.

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- At a March meeting of Latin American chiefs of state, Venezuelan President Perez reportedly will again propose that commodity cartels be established to obtain "just" prices for primary products.

Heavier OPEC Investment in Equities is likely this year. Oil producers are building up investment institutions and seeking greater guidance from Western banks. Equity purchases will remain a small portion of OPEC investment and will be used mainly to diversify total financial holdings rather than to gain control of firms.

Iran Is Trimming Long-Term Lending Plans by 40% to no more than $9 billion over the plan period ending in March 1978. Tehran now sees itself a net borrower by that date. Loans must pass the test of contributing directly to Iranian economic development, by creating new markets and expanded supplies of raw materials. (Secret No Foreign Dissem)

DEVELOPED COUNTRIES: INDUSTRIAL SLUMP ACCELERATES

Industrial production in the major countries has dropped in recent months at the sharpest rate since World War II.

Output in the Big Seven has fallen steadily since May, after marking time for five months at the reduced level brought on by the oil embargo. The annual rate of decline accelerated to 17% in October-November; fragmentary information points to an even steeper descent in December-January. Output almost certainly has fallen below the level of two years ago.

Breakdown, by Country and Sector

The timing and severity of the industrial decline in the six foreign countries is as follows:

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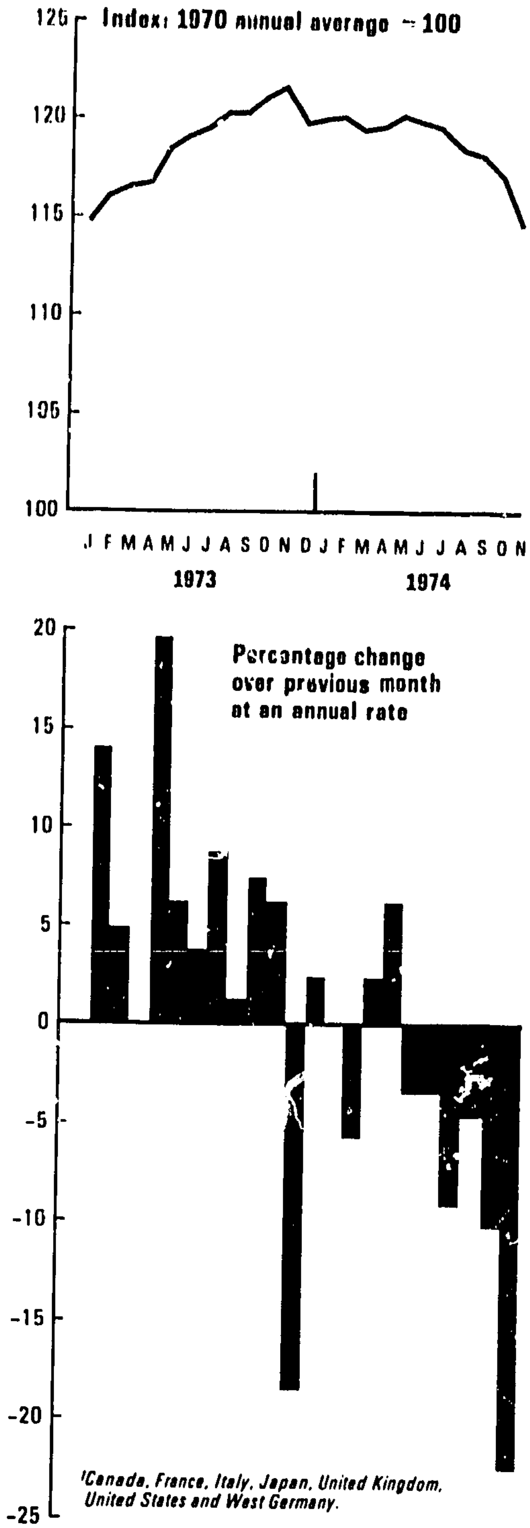
[redacted]

Italy: After rebounding to an all-time hign in June, output fell at an annual rate of 30% in the second half of 1974, to the early-1973 level.

France: Production climbed through August, then declined thereafter at a 25% annual rate.

DEVELOPED COUNTRIES: Trends in Industrial Production [1]
(seasonally adjusted)



[1] Canada, France, Italy, Japan, United Kingdom, United States and West Germany.

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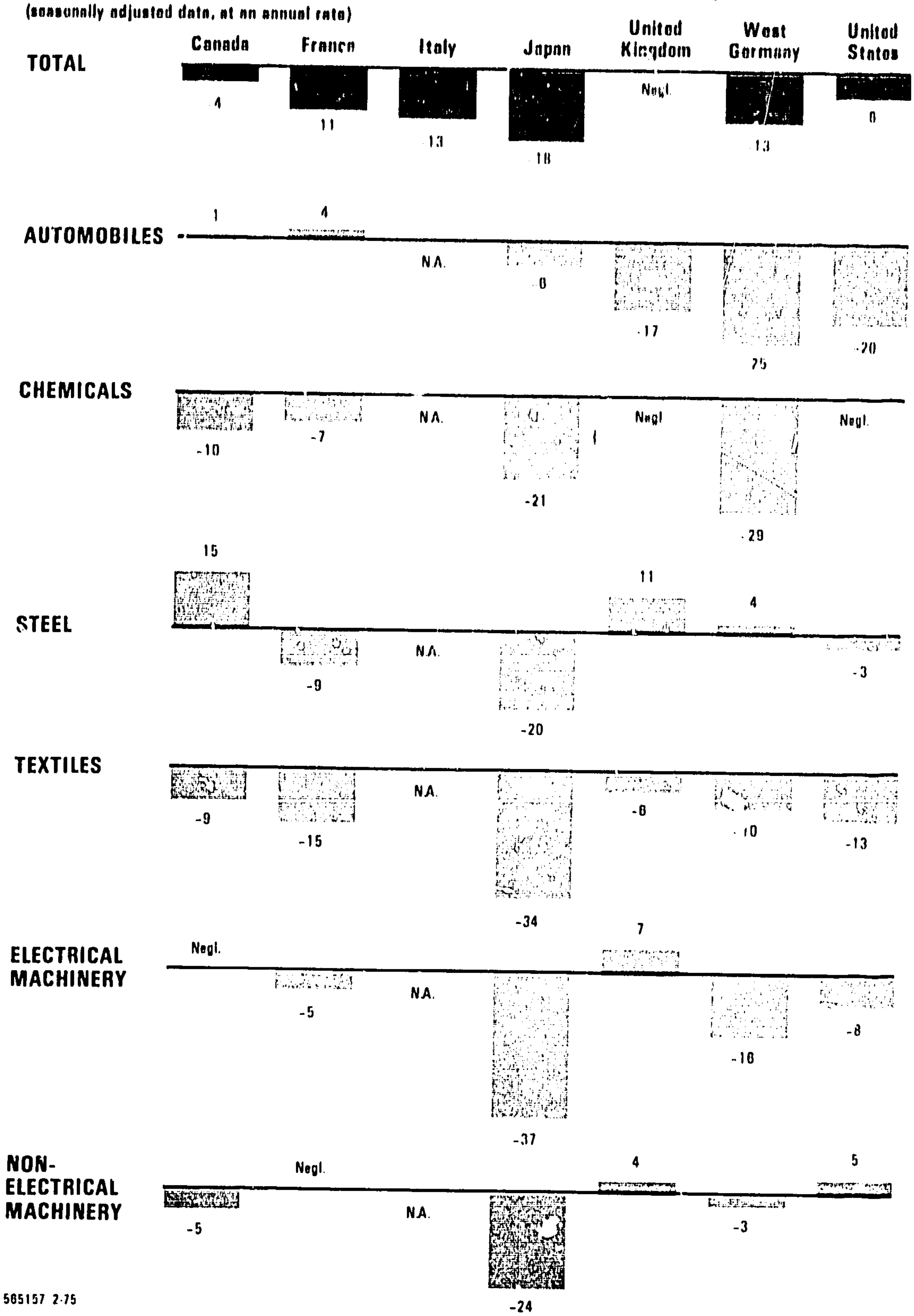
DEVELOPED COUNTRIES:
Percentage Change in Industrial Production, Nov 1974 over May 1974
(seasonally adjusted data, at an annual rate)



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[redacted]

Most major industries have been caught in the downward spiral. In June-November, automobile production dropped precipitously in all countries except France and Canada. [redacted] 25X6

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Chemical production slumped in nearly all countries, with the drop most pronounced in West Germany. Japan led in the falloff in textiles, machinery production, and steel output.

Outlook

The short-term outlook for industrial output is poor. Despite recent cuts in production, inventories remain high and will retard recovery. Moreover, demand—both domestic and foreign—is expected to be weak for several more months. While the decline in industrial activity probably will bottom out before midyear, output almost certainly will be lower in the first half of 1975 than in the second half of 1974. (Unclassified) ■

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TURKEY FACES SLOWDOWN IN GROWTH

Turkey maintained rapid economic growth in much of 1974 despite troubles at home and abroad. The overall growth rate of 7.5%, a percentage point short of plan, ranked among the highest in the LDCs. Performance weakened as the year wore on; further slowdown is likely in 1975 because trade deficits and inflation will inhibit stimulative efforts.

The costly $1 billion Cyprus operation has brought pressure to trim military expenditures. The cutoff in US aid -- although amounting to only $60 million annually, barely 6% of defense spending -- will further complicate the problems of defense budgeting. Ankara will try to protect its economic development program, partially at the expense of its NATO commitments.

Balance-of-Payments Difficulties

The most urgent problem facing the caretaker government of Sadi Irmak is the deteriorating balance of payments. Sparked by rising oil prices, imports jumped in 1974 to $3.5 billion -- 65% above the 1973 level. Export earnings rose by only 15%, to $1.5 billion, as the result of a small decline in volume. The record trade deficit pushed the current account into the red by $100 million in spite of continued large remittances from Turks working abroad. A flight of short-term capital apparently contributed to the $355 million foreign exchange loss in 1974.

Part of the downturn in export volume can be laid indirectly to Ankara's high support prices for agricultural products. Lacking an adequate export subsidy scheme, Turkey attempted without much success to move these commodities at prices above the world level. Cotton sales – normally the top dollar-earner – were further crippled by a worldwide slump in textile output. Rapid domestic inflation and growing world recession reduced the markets for many industrial exports.

Turkish officials are considering import controls and export promotion programs to keep the trade deficit from rising above $2 billion in 1975. To hold the rise in imports to $500 million, Ankara proposes to restrict purchases of oil and consumer goods to last year's level. It intends to offer credit incentives to industry in an effort to generate an offsetting rise in export earnings. This goal probably is beyond reach, since Turkey depends heavily on exports of raw materials that will continue to suffer from slack foreign demand.

Ankara can no longer count on worker remittances to cover its trade deficit. The steady decline in the number of Turks employed in West Germany and other European countries will probably push remittances below the $1.4 billion received in 1974. Government efforts to place returning workers in new jobs in oil producing countries will not compensate for losses in European employment.

Dealing with Inflation

Spiraling inflation is pressuring Ankara to rein in spending, despite the cost in economic growth. The inflation rate has about doubled in the last two years,

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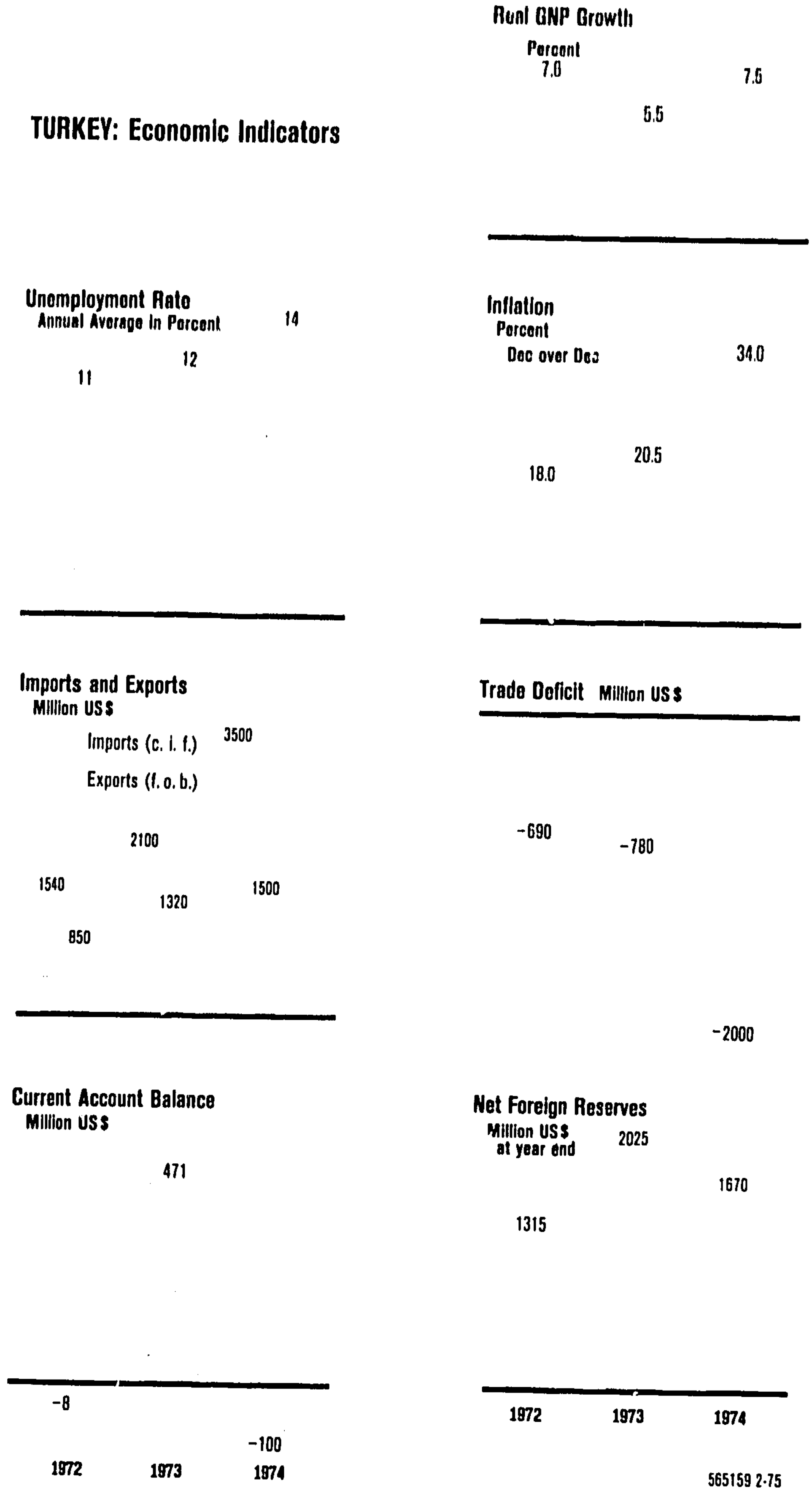
TURKEY: Economic Indicators



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to 34% because of sharp wage hikes, food shortages, and soaring prices for imports, particularly oil. The proposed federal budget for the fiscal year beginning in March calls for no increase in outlays in real terms. To boost revenues, Ankara is considering taxes on agricultural income and a progressive income tax system. (Secret No Foreign Dissem)■

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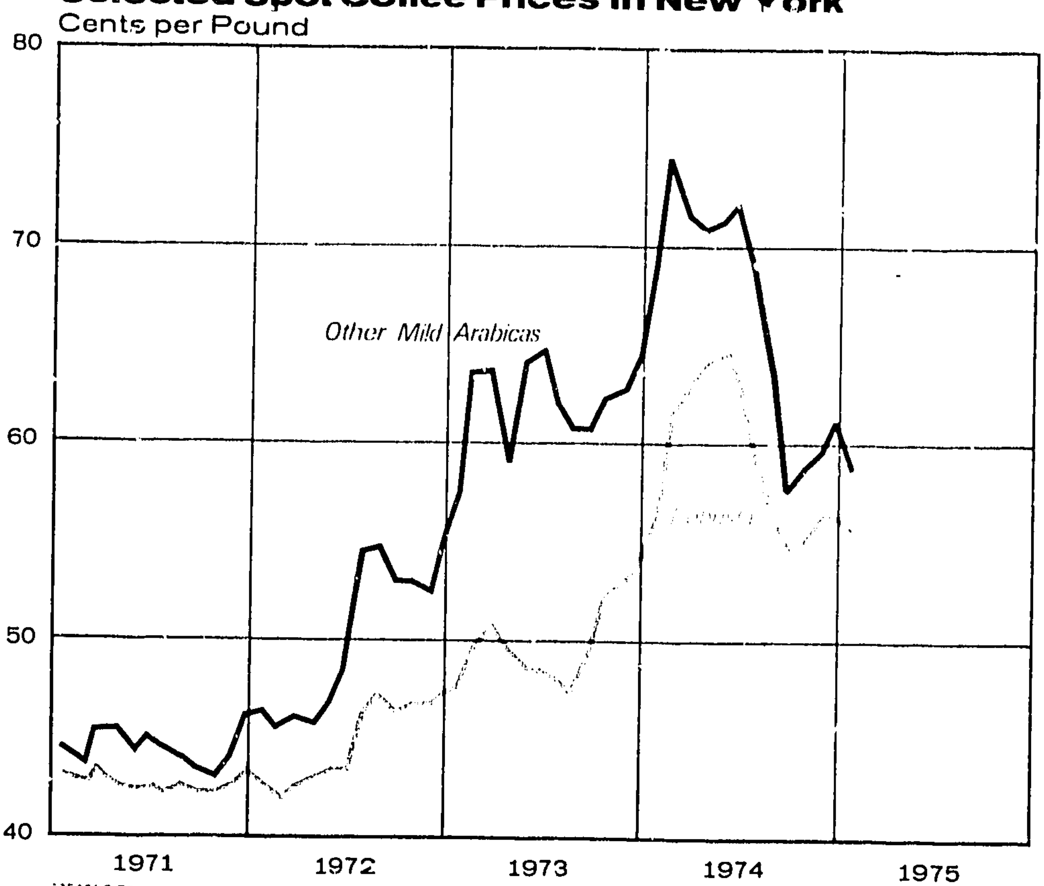
PROSPECTS IMPROVE FOR COFFEE AGREEMENT

The recent weakening of world coffee prices has made both the producing and the consuming countries more amenable to the reestablishment of an international stabilization agreement. In their negotiations, however, the countries have not faced up to the gut issues, and they may not be able to frame a mutually acceptable price support system.

The price support function of the International Coffee Organization (ICO) was suspended in late 1972 when producer members sought to make permanent the price jumps occasioned by a severe Brazilian frost. Consumer members would not go along.

World coffee prices remained high until last summer. The revival of production and the weakening of demand have subsequently led to a 15%-20% decline. Importers may be willing to support the new lower levels, while exporters may be willing to moderate their previous demands. An exporter scheme to support prices by withholding coffee from the market has been unsuccessful. Moreover, worldwide recession will continue to depress the market throughout 1975. Long-term price expectations also are poor. The ICO is now forecasting excess coffee production for the remainder of the decade.

Selected Spot Coffee Prices in New York



Bargaining will focus on the price support level, the basic issue separating exporters and importers. Many African and some Central American exporters are prepared to sacrifice price points in exchange for a larger share of the market. This will bring them into conflict with those producers, led by Brazil, that advocate more severe restrictions on volume in the interest of higher prices. The price question is further complicated by the issue of indexing – i.e., the automatic tying of the support price to production costs and currency values -- which has the unanimous support of exporters and is solidly opposed by importers. Finally, importers insist a method must be found to prevent price increases such as occurred in 1972. Several inventory proposals have been suggested, none of which has provided acceptable provisions for financing. (Unclassified)

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Notes

US Surplus in Soviet Trade Way Down

The latest Department of Commerce figures indicate that the US surplus in trade with the Soviet Union dropped from nearly $1 billion in 1973 to one-fourth of a billion dollars in 1974.

Million US $

	1972	1973	1974
US exports	542	1,195	598
Grain	364	837	282
Soybeans	53	72	....
Raw hides and skins	10	1	12
Machinery and equipment	62	204	212
Chemicals	21	17	28
Iron and steel	Negl.	14	8
Other	32	50	56
US imports	96	220	349
Oil and oil products	7	76	105
Platinum group metals	45	80	134
Diamonds and other precious stones	13	17	12
Chrome ore	14	6	9
Nickel	Negl.	11	40
Titanium	1	4	10
Other	16	26	39

(Unclassified)

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China Seeks US Integrated Circuit Plant

Chinese officials recently queried [redacted] 25X1X
25X1X [redacted] about establishing a turnkey integrated circuit (IC) plant in China.
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25X6 [redacted] the PRC now is interested in advanced US equipment and technology. Advanced ICs are crucial to the development of high-speed computers and sophisticated military electronics systems. (Confidential No Foreign Dissem)

Publications of Interest*

Distribution of OPEC Investment: September 1974
(ER IR 75-2, February 1975, Confidential No Foreign Dissem)

This report presents detailed estimates of the distribution of foreign official assets of OPEC states -- by type of investment, location, and currency denomination. The bulk of the holdings were concentrated in highly liquid, dollar-denominated assets in major financial markets, particularly London and New York. Prospects for 1975 and their implications are also considered.

Communist Aid and Trade Activities in Less Developed Countries, January 1975
(ER RP 75-5, February 1975, Secret No Foreign Dissem)

This month's publication features developments in Communist economic and military aid programs in African, South Asian, and East Asian countries.

* Copies of these publications may be ordered by calling [redacted] Code 143, Extension 7234. 25X1A

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